Information Technology Authorization Committee
Friday, January 19, 2001
9:00a.m. - Noon
411 North Central Avenue
1st Floor Lobby Conference Room

Minutes

Present

Tom Betlach	Office of Strategic Planning & Budgeting
Phyllis Biedess	AHCCCS
Dr. Linda Blessing	Board of Regents
Karl Heckart for Dave Byers	Supreme Court
Albert Crawford, Jr.	Private Industry
John Jacobs	Private Industry
Dr. Bill Lewis	Public Sector
Danny Murphy	Local Government
Art Ranney	Government Information Technology Agency
Peter Woog	Private Industry

Absent:

Dr. Michael Gentry	Federal Government
Senator Dean Martin	State Senator
Representative Roberta Voss	State Representative

Call to Order at 9:00 a.m. by Chairman Art Ranney.

Director's Report   **Exhibit 1**

Project Approval
  ● **Technical Change to Conditional Approval**   **Exhibit 2**
DOA - Risk Management

Frank Somers, Government Information Technology Agency Oversight Manager
Risk Management Presenter: Frank Hinds

Dr. Blessing This seems like a straightforward request, it will increase the competition and the vendors can propose, is that correct?

Frank Somers   Yes.

Motion by Dr. Blessing to approve with conditions outlined by Government Information Technology Agency.
Second by Al Crawford
Motion approved.

Department of Administration – Human Resources
- **Replace the HRMS System**   Exhibit 3

Frank Somers, Government Information Technology Agency Oversight Manager
DOA Presenters: John McDowell, Christine Garcia, Bob Rocha

Peter Woog At the higher level, is this part of a master software plan architecture for all State agencies? Is there anything unique about Human Resources' needs for the State of Arizona significantly different than any other employer would have?
John McDowell   When the project was first launched, it was being looked at as an integrated financial system with HRMS and Financial for the State of Arizona. In discussions with Government Information Technology Agency as we progressed through that, we determined in government areas there isn't a high success ratio of the very broadest, all encompassing ERP-type approaches. We're trying to break the master plan into more manageable pieces and functions. It is the intent within this and will be managing this as a multi-agency project. DOA has the responsibility for certain statewide HR functions and to do payroll statewide. Many agencies have detailed systems in the area of managing human resources, labor distribution reporting. It will be our intent to make this as broad as possible to break down the silos and provide an architecture where all the front end flows in and all the unique back end reporting requirements can be accommodated within this solution to minimize and to start integration of the processes from the data structure standpoint so it is more cost effective to the State.
Peter Woog That's great and I would say to you that in industry we had the exact same paradigm for the CEOs—learned the word no and started breaking down these barriers. Where the technology is today, if we don't drive in that direction, I don't know what we're accomplishing as a Board here. I would think we have to be supporting you and it is breaking these barriers down and not having individual silos.
John McDowell   On your second question, there are things unique about government in the State different from maybe other large employers. We have about 38,000 employees. Responders in these three areas of service bureau include service providers and integrated software providers. Within the government area and it's not unique in Arizona, but we have our own spin-off, is you have to handle 16 different retirement systems, each one with unique things.

That's the starting position. In several other areas you can't take the pure, off-the-shelf product. In the case of the service bureau, the way some of the statutes and rules are written, if you don't meet the payroll, you have to pay triple damages. The State payroll is $55-58M for each one of them, so it means there is a closure of $160M. If you take only a state solution and the state owns that, you go to ASP or service bureau provider and they are the cause of it, as part of the RFP process you want to have discussions on when you will share that risk. When they're going to sue the state, part of that if it is their fault.

Peter Woog You have to use this opportunity to reengineer those problems, don't do away with the 16 situations you described, if they are what they are you have to deal with them. In the design of the system, you have to think about this on a broader level. $24M for a HR system is a mind boggling number.

John McDowell   We are in agreement on that and DOA will change our process however we need to take advantage of current trends solidly in place and business practices solidly in place that we're currently not using.

Peter Woog So we'll bring in the bidding process the clients will be…

John McDowell   We'll be asking for those to be brought to the table so they can be considered so that can be built into the selected solution.

Dr. Blessing I don't jump to the conclusion that outsourcing by virtue of going to a service bureau is always the right answer. The nature of the payroll system where there is plenty of technical competency out there in the private sector seems as if that is a viable option. I understand DOA is heading toward including that in your RFP process. I look at the cost benefits and the risks; they seem heavily weighted in terms of numbers and descriptions toward a software purchase; yet I look at a service bureau and I think there's plenty of expertise in the private sector for payroll systems and look at the way the risks were outlined. Many of them could be reviewed again or changed. You've got quite a staff there and I compared a service purchase and you've got a few. One of the risks for a service bureau is vendor's potential loss of ability to stay current with technology. I have a hard time imagining a private sector vendor would have any more difficulty staying current with technology than we would in government. I would think they would have some advantage in staying current. I worry that we not be too quick to stack the deck in PIJ risk assessment against outsourcing for something like this that is so naturally found in the private sector. Take for example the penalty provision. Perhaps the penalty provisions could be revisited in law and should be. They were passed because sometimes the Legislature is a little annoyed with one of the State agencies because they have been unresponsive and it may not be the best provision, might be worth revisiting. This is one area, and I'm not one to say everything should be outsourced, we really try to pick and choose in the agencies I've worked with. I wouldn't want to see it not have a level …

John McDowell   Those are very insightful comments. There has been discussion on how we approach this, what you say and don't say in terms of litigation and risk. Maybe the group would like to consider to alleviate ITAC concerns is the team works on, puts together the RFP before it goes on the street, that this body review it to make sure it is as good as possible on all the

alternatives so all get a fair shake as far as the best solutions.

Dr. Blessing Reviewing the RFP would be helpful but we ought to talk about that. It's evaluation of the proposals and how the risks are weighted in terms of award is even more important to me.

Karl Heckart Those of us who haven't been around the table for awhile are lacking a huge piece of a PIJ that gives context to this project, so for all I know, all of these issues have been answered in the earlier PIJ and this is a response to the option piece. Where are you in terms of funding for this project? Do you have the money or does this require approval to move forward to the Legislature?

John McDowell There is funding that's been proposed to move the projects along. We feel with the size and magnitude it is, to complete it in short as possible time, we'll probably have to finance it.

Karl Heckart If you got approval to proceed with the RFP, you have funding and authority to move forward with that?

John McDowell That depends on what comes out of the RFP process and we're up for budget hearing on 2/9.

Tom Betlach The funding had been recommended already for Executive and Legislative budgets, it's been included in both budgets at this point in time.

Karl Heckart At this point $4M?

Tom Betlach We have a lower amount because we just had two years of the fiscal. We have five and they have six for each year, so we have $8M, does that sound right? I'm talking different numbers.

John McDowell $8M is in the budget recommendation. We don't want to upset all the things in budget area and would be prepared to look at financing on it to have the upfront money to move the project along during the development stage in as short as possible time.

Karl Heckart This is one of the State's core kinds of application on a statewide basis. There is this notion of the display of a master plan, how does all this fit together? Over the past, when we implemented these core systems in accounting and payroll, shortly after implementation they seem to splinter out agency specific silo systems because they don't meet the needs of the agency, so they begin building their own things. I have no idea how many of those are out there. With this kind of money, it would make some sense to see the plan where all those are and what the plan is for the elimination of those systems, resulting in some cost savings and real leveraging of benefits. Sharing of this information and the reutilization of it is where most of the benefits will come from, I think, for this project. That needs to be proposed with this group, it's a huge cost and it is the role of this committee is that strategic kind of view on how it plugs in with the overall plan for the State.

Dr. Lewis I know the RFP solution has been discussed and is not exactly in favor today in many areas. It at least needs to be held open. I suggest if an RFP is prepared there be some discussion in the RFP that the vendors submitting proposals at least discuss what some of the options may be and maybe give you some assurances with regard to maximum costs, etc. to hold some options open for you in the future. You're looking for the best agreed solution today but I think

you want to hold open options and know what the options are and know them upfront.

John McDowell We'd like to also (inaudible)… and keep those options open.

Danny Murphy Is there any analysis about what other states are doing in terms of in-house or outsource?

John McDowell Most are in-house, mainframe solutions. As we talk with other states about outsourcing options, they find it interesting, let us know how it goes.

Bob Rocha We did contact about every state that had implemented the payroll system and asked them if they considered any other solution. We talked to some in the process of doing it and they said they are looking at it, they thought it not feasible for too many different reasons. We feel there are some viable processes out there and there are going to be some risks. We're learning to look at all options and, I agree with Karl, we should have an overall and should be looking at core corporations. Although there are 100+ agencies, there are 15 large agencies that tend to flake off because we don't meet all their needs. Other times we don't meet needs because of the funding situation. If you don't get enough funding, your project and your scope has got to be reduced. It's a State solution. We have 16 retirement systems, 7 personnel systems, schools, prisons, all sorts of diversity and unique needs. Some have performance plans, incentive plans, and other things. Unique requires additional modification and tweaking. When you're making a new suit, one size doesn't fit all.

Danny Murphy On risk scale 1-5, can you tell me the risk of not moving forward and what those risks are?

John McDowell If we don't move forward now, with the overall condition on the current system, in the area of 4-5 on the risk. The system is very fragile in its existing condition. One of the conditions placed in provision is we continue to support the day-to-day changes and needs in the system and we are doing that. It takes a lot of review on both sides to make even minor changes just because of the nature of the technology. Future problems or certain requirements coming in the legislative or desirables that want to be placed in that system, we may not be able to do it in response to that. I think the probability is pretty high we can.

Al Crawford Operating costs—do you absorb all operating costs or do you charge out?

John McDowell About $2M per year.

Bob Rocha It is paid by the General Fund and is not charged to agencies, it does have a pro rata charge. No direct charge to the agencies for the system.

Al Crawford Is it absorbed through a budget given to DOA for the operational cost?

Art Ranney The pro rata is a charge…

Tom Betlach They are 10 percent services.

Art Ranney From earlier discussion, the PIJ was not here and there was reason for that. It had been reviewed and we had moved past that. Sometimes if you put the PIJ back in we take two steps back. We did take looking for reference into consideration and we will do that in the future.

John Jacobs What are your timelines on this project?

John McDowell   The timeline because of the condition of the system, we would like to move very aggressively. A team will work on the RFP during April, finalize that, would like to put it on the street in May, have it back in July timeframe and by September be ready to make an award. Parts and components of this we would like to have implemented by January 2003 because of the weaknesses and problems in current system.

John Jacobs   Two of these alternatives are evolving alternatives—ASP and outsourcing—so it will be a learning experience going through this evaluation process. How would you envision us getting back into that timeline before you made another award?

John McDowell   A lot would depend on the desires of the group. There needs to be a definite checkpoint when the RFP goes on the street that covers the bases. In addition to preparing the RFP, we have overlapped with that the preparation of the evaluation criteria and how you go about that. Typically, you do not share the detail, you tell the priorities of what's important to you and the general waiting. Some of the points assigned to various variables, you keep that confidential for the evaluation team. With the complexity of what's here, you wouldn't have identical evaluation criteria through each of your three alternatives. You have to develop that in the process and it would have to be overlapped while preparing the RFP. On the back end, I suggest to keep the procurement process clean is part of the RFP you write into it, final outcome is subject to ITAC approval. That way we don't need closed door Executive Sessions where you're trying to look at proprietary information from solution A to solution B. It would be left to the evaluation committee, Government Information Technology Agency and those involved in process that we have picked a solid solution. Before it is awarded and you start a full implementation cycle, it will be subject to ITAC approval and is scrutinized at that time. If you want to do it a different manner, it can be worked in.

Tom Betlach   To what extent has ITAC in the past got involved in awarding subject to this board's approval?

Art Ranney This has been one of our toughest areas. We have to close the doors to have an Executive Session, chase everybody out of the room, sit down and have conversation. You're allowed to only ask the questions having to do with the vendor. If you have a technology question, you almost have to step out of Session to answer the question and move back in Session. It is very limited conversation, only dealing with vendor. After Session, someone might ask how did the vendor do it. This might be a better solution

Tom Betlach   We have to keep that in mind, certainly the BRITS project, five times the scope of this project, has very significant RFP issues in terms of cost.

Art Ranney You're exactly right. I don't have a problem with Government Information Technology Agency doing due diligence in looking at the scope or the work. I learned recently about RFPs, there are a lot of vendors and this isn't to say the vendor community doesn't do this right. I found that our scope of work and what comes in on the bid, you kind of wonder if they even looked at the other. I'm not saying it's wrong to do, just that many times the bids do not reflect

exactly the scope of work. To look at the scope of work it still can change.

Phyllis Biedess   You mentioned you'll be developing the criteria for some of the applications, some of the options. Does the department use a consultant or outside resource to assist in this area?

John McDowell   We're starting a series of meetings in the next couple weeks, starting one-on-one with each of the major agencies and group meetings with some of the mid-size agencies to bring them up to speed. There are 18 functions identified, need to have whoever the supplier is with this solution to address/accommodate as much input from agencies into writing requirements and scope of work. Selected individuals will be in the evaluation committee, balance the private sector and agencies. We can use, as an option, to have outside consulting assist us in preparing the document. We have done it in the past quite often, for example in the telecommunications area.

Tom Betlach   Didn't you originally have Gartner on as part of the support of this project when you were looking at overall scope?

John McDowell   Yes.

Bob Rocha Gartner also assisted in getting the original functionalities to the meetings and assisted in finding what the functionality should be. We originally had a large gathering of the agencies and came up with the co-functionalities. Now that we know what it is, we will do an analysis for any more uniqueness. Gartner and others have been used to prepare RFPs. Some vendors are reluctant to assist because under the procurement regs they are then excluded from participating in the bid.

Phyllis Biedess   I would still urge the department to consider someone to assist you.   A lot questions directed by the group hope you keep an open mind. I believe from what you told us you will keep an open mind.

Bob Rocha We would be open to using outside resources.

Peter Woog When you look at these solutions for a purchase option, if you could look it from two views: 1)development and implementation of your own software system which in time will become a legacy system and if you acquire off-the-shelf HR system where the manufacturer and 2)vendor of that system continues to maintain and upgrade that system and take it forward and in #2 come back and tell us what has to be reengineered in how we do business here in order to make that a viable solution. I have great empathy for what you're trying to do. This is no different in the private sector when we acquire another company and try to integrate these together. You do reach crossroads where it's cheaper to buy your way out of some of the problems. If you could help us to understand those, maybe we could help you with some of those solutions.

John McDowell   We're completely open to do that.

Karl HeckartI would like to see, before this project takes place and spending money to build itself, is this master plan view, the entirety of the project, all the silo systems existing today, the plan for their replacement and the commitment by the agency to have them replace them. Typically these projects get going and they fall into technology complexities and in the end you get into a tactical implementation and nobody follows through to take the pieces out. They enhance their silos to use the system.

Art Ranney I have expanded to 7 the distributed list of conditions for the next phase.

Tom Betlach   Are you talking personnel or grander vision?

Karl Heckart I think there should be a 100,000' view: here are the components as they exist today and where they will probably fall off the table. Within the next couple years, we might see proposals to replace all of those. I would like the analysis around this core financial HR systems.

Tom Betlach   To me it would include accounting, procurement and HR functions.

Karl Heckart   HR personnel.

John Jacobs   I would like to see is at least they consider the need and necessary use outside consulting with assistance and preparation of the proposal

John McDowell   Some of these conditions have an extended timeline on them, need assistance from Government Information Technology Agency.

Bob Rocha Yes, we can use outside consultants, yes, we're in a tight timeframe; yes, they would extend the line. For any contact you put our there or any assistance, we're going to have to put out another RFP.

Art Ranney There is a state contract so RFP not necessary. It will extend, no question.

Karl Heckart   I sense a timing thing, there is a need to replace the system. I'm not sure you can't proceed with preparation of the RFP. They are potentially parallel projects.

Art Ranney I don't think the master plan should hold up the other 6 conditions, it is something that needs to be done in conjunction with the others.

John Jacobs   Part of the problem we've had in the past is trying to make a decision on a piecemeal knowledge of what the overall plans are and we're lacking on where this fits in and will lead us in a long run. It would be desirable to do it parallel but at the time the decision is made you would know where it fits in, what the magnitude is, what the life of it is.

Art Ranney We do conditional approval: this must be done before you obtain final approval from ITAC.

John McDowell   That would be my suggestion also that it dovetails in.

Tom Betlach   I think you have the majority of the information on the HR system, it's all the other information you lack at this point.

Karl Heckart   It may take time to get the agencies to commit.

Bob Rocha I don't know if DOA has the authority to rule an overall master plan for the state.

Frank Somers   Not an overall master plan, a plan that brings into account the financial systems, the HRMS systems and procurement.

Bob Rocha We have major systems we've entered into contracts (AHCCCS) with other states to provide financial information and most of these systems are integrated in such a way that once you adopt a financial system, you try to tie it to other things, such as confidentiality of information on child support, welfare payments, DOR all of them fit into financial system. Where do we stop and how much are the agencies going to give up their systems?

Karl Heckart   I think you can identify it and annotate what the issues

potentially are, which puts it on the table for this group who has $1M authority over automation projects. Most likely those systems will come forward here for some discussion. I'm trying to get a picture so this group sees what it's talking about every time a tactical decision has to purchase comes up.

Art Ranney I understand where you're coming from. We at Government Information Technology Agency tell we can't get anybody to do anything, but we can stop it on a dime. We would prefer to do the other, would prefer to work forward. I think a great deal of planning here to tell you what a master plan is, we can work together and supply ITAC with what we think it should be. Let's don't go too far down that road until we understand, it will give you time to go back and see if you do have the authority.

Dr. Lewis   You sort of backed off on the HR finance to at least look at HR, the explicit purpose of this project across the other agencies.

Karl Heckart I don't think you've gone into the details, I do think it's important that accounting systems, whether they have feed through these other systems at a very macro level. What are those, are there any that are currently in to a PIJ process in the next two years that we'll spend another $24M to replace one of those and $10M to glue it with the HR system? That's a contact discussion I think needs to be there.

Tom Betlach   That's an inventory or are you talking about a grandiose plan?

Karl Heckart It's a broad view.

(inaudible)   I would hazard a guess that you also need to from the standpoint of the HR system, look at the unique requirement of various financial systems that exist with an interface. That would have to be part of the HR.

John Jacobs   I think the discussion is very good, the suggestions lead to a better decision process as long as we know over a period of that two months we should consider these options as long as we have this parallel on the seven points. Also that you're able, Art, to provide the resources to help on that project.

John McDowell   We're coming up to the beginning of the planning for the next three years, IT planning cycle due in September, which would help to coincide when we would come back. There is an opportunity to place certain requirements on us and other agencies to supply certain information during that time and process that we can use in looking at how this dovetails together.

Dr. Lewis   What is our role and authority? As I understand it, DOA doesn't have some of the level of control over agencies necessary to pull this together. Government Information Technology Agency, however, may have at least a wider sphere of influence. Would it be possible or maybe the right solution for us to say as conditions for #1-6 we talked about, then request DOA and Government Information Technology Agency enter into a joint process to look the integration of how this can be done? I don't think it's appropriate to put as a condition of DOA, but may be appropriate for this group to request DOA and Government Information Technology Agency enter into discussion to bring it together so when it comes back to us for final approval, at least we have better insight into this what's happening statewide.

Phyllis Biedess   I agree, it's not appropriate to add #7 on that particular

project.

Frank Somers   The conditions would be #1-6 with a sense of the committee statement regarding a master plan for the state and for…

Art Ranney That would be a joint effort and a joint report from Government Information Technology Agency and DOA. Are you ok with that?

John McDowell   I am.

Motion by John Jacobs;
Second by Dr. Lewis;
Motion Approved.

Dr. Blessing abstained, out of room due to conference call.

Arizona State Retirement System
Public Employee Retirement Information System (PERIS)   Exhibit 4

Frank Somers, Government Information Technology Agency Oversight Manager
ASRS Presenters: Alan McGuire, Prudence Lee, Anthony Guarino, Betty Bates, Kent Smith

Dr. Lewis   The $24M, does that include bringing back, entering historical data so it is a complete system?

Betty Bates There is a certain amount of data conversion we're bringing over from the current system. That information is stored off on disk currently and we can load that into the system.

Dr. Lewis   The reason for the question was the comment that you have to search other systems manually – will that information be included?

Betty Bates In some cases where someone had forfeited their service time, they left the state, then came back, wanted to purchase the previously forfeited service. That's the type of research. We had at least seven years of information on tape relative to forfeitures and the goal is to load that information in. The same information was reported to the IRS on that distribution.

Phyllis Biedess   Describe a little more the extent of what your project will include besides what we had as the overview statement integrating the system, are you enhancing the phone system, what other things?

Kent Smith Yes, it includes enhancing the phone system, implementing CTI computer telephony integration between phones and computers and databases, so when a member comes in, we can prompt them for a social security # or some identification #, pop a screen for our member service center that answers those. The PIJ also includes some monies for doing some video conferencing because we have to provide the seminars across the state for members in the planning process of retirement. Some upgrades to our file servers to increase capacity to store more data if we enhance these systems.

John Jacobs   My main concern last month was looking at your past track

record in IT working with Oracle and the size of that investment, which I think was running about $1M per year, and taking on a project of this magnitude and the involvement of the executive management on the project. Betty, what percent of your time will be dedicated to this project?

Betty Bates In our master IT plan, the agency has selected key individuals to form a project management team. I am on that team. Since the time we responded to your questions, we've selected the team, we will facilitate, we use the joint application development process, so each team member will facilitate each study session and that team will be comprised of the subject matter expert from the service area and the charts provided are those people both existing and proposed new FTE in the budget, along with consultants to help build those applications. I am fortunate to work on it 100 percent

John Jacobs   If you've not had a lot of experience in managing a project of this size, is first the involvement of the user community, they have to live with this, really understand it. A lot of times IT project team, maybe 50 percent is user community, maybe larger than 50 percent and IT becomes a part of the consulting to make it happen. If you're 100 percent, how high a level on the user community will have a lead project, someone who has authority, oversight over at least the components involved in this project? Usually you like to have a joint activity, the IT function being represented at the very high level and the user community at a very high level

Betty Bates My teammates, for example, John Hendrix has been with agency over 25 years; Theresa Donohue has been there 10 years. I have been there 12 years. What's interesting about our system is the data is so closely related from one service area to another that we need to call on other subject matter experts. It's one thing to process a refund but if we get that call into member services, they need to know how the processing works and be able to respond to the person's questions. We have reps from the other service area, we have our reengineering person looking at it and we, the IT group, take the business requirements and turn them into the technical solutions.

Kent Smith We have been working on PERIS for several years now; we've been through the learning curve of Oracle and we're satisfied with our abilities in that. Over the past few years we have found out is what does and doesn't work. This IT proposal is a fairly significant part of our budget request, also includes request for additional staff so we can pull users out of their database jobs and let them focus on this. That has not worked with what we've done. There's a reason why we're not further along and one of those reasons is we have to make due with the user input we can get and pull people in as we can. We want to pull people out of their jobs and let them completely focus on this project, ask for additional resources to do that. We got approval for those in our budget hearing from JLBC.

John Jacobs   I know your staff is thin from the standpoint of IT. It looked like you were long on the contractors, consultants, project leadership, in most cases you don't want to delegate the responsibility of that team. Betty's full-time, dedicated on IT and the several people in your organization involved. Do you have a counterpart that represents accountability with a user side that would be

working 100 percent? Take that responsibility so you essentially manage the consulting team and project team?

Betty Bates I know each person who accepted being a member of the project management team is being given the authority to make decisions necessary with their experience within the retirement system and with that in mind, I'm confident we can deliver the whole system.

John Jacobs   Accountability for the project would fall on you, Betty?

Betty Bates One of the RFPs going out calls for another project director that the four of us will be working with. That director will report to the steering committee and the Board.

Alan McGuire   One of the concerns of the Board and Budget committee was exactly that. It's been my experience in government that there is always a crossroads you need when you undertake a large project like this. Do you take your best and brightest from the operation side to dedicate to the development side and run the risk of having problems on the operational side or how do you balance that issue? When we started, we had an org chart with people who do this stuff. What we probed was who are those people, how much experience do they have, are they the right people to do that and what will the negative consequence be to the ongoing operation? We tried to balance that. Most of the people moving into this project--I know most of those people and their functional expertise. We fundamentally changed the priority of those key individuals. We're going to watch this carefully because we view this as the biggest single undertaking for this system, at least in our collective experience.

Motion by Tom Betlach;
Second by Phyllis Biedess;
Motion approved.

Dr. Blessing abstained, was on a conference call out of the room.

Department of Revenue
BRITS Project   **Exhibit 5**

Frank Somers, Government Information Technology Agency Oversight Manager
DOR Presenters: Mark Killian, Dick Milanese

Peter Woog I want to compliment DOR, in my experience, you people are extremely customer focused. On the gain sharing, based on what Gartner is telling you, what would be the split between you (DOR) and the vendor? Is it capped on the up side in cost and benefit?

Dick Milanese   What we're proposing, they will come back saying they want to do these 5 or 10 things, anticipate the benefit the state is going to be $X. We're saying the entire cost of the project will be funded from the increase. At this point we're not anticipating metrics. What we have to do between now, the

RFP and the award are addressing those specific issues. Typically they put in things like establishing what the baseline is, how do you deal with the fact this has nothing to do with the project, the Legislature increases the tax; the revenue increase from that should not contribute to it; Is there a cap; should there be a bonus in it if they bring it in faster? Those all become part of the package, that's why we want to have Government Information Technology Agency, OSPB and everybody else associated with it to help us make sure that's a reasonable package.

Peter Woog You talked with Gartner and other states that you can truly measure the cause and effect from they made this programming improvement or this system improvement and, therefore, we got this many dollars from it?

Dick Milanese   Yes, it would and this is done in enough states now, so we can copy.

Mark Killian California is in the process of reengineering one of their systems, it's a gain sharing program and they anticipate it will take 5-6 years to pay off the vendor. It took them 18 months. I was told today they identified over one million taxpayers who had not been paying taxes in that state. They anticipate a billion dollars in revenue. There is significant upside to the state. You do put a cap on it, don't want to be married to these people for the rest of your life. The group benefit here is under your traditional approach to procurement, there is really no incentive for the vendor to really stick around. With this approach, if they want to get paid, the system has to work, it has to meet all the criteria. As we negotiate the contract, several people will be at the table, the Budget offices, Treasurer's office, Attorney General's office, State Purchasing, DOA, asked them to work as a team with us in negotiating that contract. Initiatives and referendums must be written into the contract. The Legislature and taxes must be covered. We will make sure every entity, people will be at the table helping us.

John Jacobs   What kind of track record does gain sharing have? Is this a trend in State government?

Dick Milanese   It's a trend in the last 10 years or so. Kansas is just finishing theirs, it will pay off at the end of five years. Virginia is in the third year, California has done their project, will be paying off, Wisconsin is just starting. A lot of it is in the contract.

Art Ranney We tried it here with welfare reform and other factors got in the way. It was somewhat the same concept.

Al Crawford So in Arizona, are you the pioneer?

Dr. Lewis   I have a little concern that the whole idea of gain sharing may be in competition with the idea of customer service and are you going to be able to address that in the RFP process?

Dick Milanese   Yes, we have in our concept of operation really stressing customer service. I will tell you the states that have done it, they've been able to do that in Virginia and Kansas. A lot of these things integrate, the way you make the money with the revenue side is by having integrated data base letting you do the matches. That same process makes us more efficient when we talk to the taxpayer because we go one screen and have all the information.

Mark Killian We have worked hard in reinforcing the customer service culture. I

want to be known as the Walmart of Revenue Departments. Walmart made their strike in the economy by taking care of the customer. We reinforce those customer values with our employees and they are very conscious of what they can do to help out our taxpayer customers

Phyllis Biedess   You are to be congratulated, your staff and what you've done. The project looks nicely laid out, obviously you have a lot of input into it.

Art Ranney This is the biggest single project for that entire agency and those scare me to death. Have you got plans to do this in a segregated or in a step process?

Dick Milanese   Yes, again using Virginia's example, they wound up with 15 separate projects, each project has their own action plan, timetable, anticipated benefits, crews assigned, and deliverables—that's what we want to do in pieces, not one major project.

Karl Heckart As you're biting the project off into pieces, not actually spending state money, they in theory would not come under ITAC for review again, is that correct?

Dick Milanese   We were going to come back and part of it is we believe we can't do this by ourselves.

Mark Killian There is a huge amount of risk and you can find public and private sector at reengineering. One key component of those is if you don't communicate with your employees what your objectives are and what you're trying to do, there is not the agreement to go ahead. We made an extended effort to make sure our employees know what we're doing and how. We feel an obligation to report and if you want us back here every 30 days, every two weeks, whatever, we will do it to make sure everyone knows what, why and how we are doing it.

Motion by Phyllis Biedess;
Second by Dr. Lewis;
Motion approved.

Dr. Blessing abstained, out of room on conference call.

Department of Revenue
  ● **Transaction Privilege Tax System Project**   **Exhibit 6**

Frank Somers, Government Information Technology Agency Oversight Manager
DOR Presenters: Mark Killian, Dave Rowand, DOR Staff

Dr. Lewis   The recommendation is evaluate the alternative database and come back to Government Information Technology Agency and ITAC. I'm gong to move for approval of that recommendation.

Frank Somers   There would be a difference in cost.

Dr. Lewis   The recommendation says to bring that back to us.

Karl Heckart Do we have idea of the magnitude of that?

Frank Somers We know DB2 license fee is $15,000 per month; the IBM product is already on state contract so we're not requiring an RFP; the price for the CA product is part of the enterprise license agreement will be paid for. The advantage of these two products is you can cut out the six-month delay for an RFP. Either would be appropriate to accommodate their requirements, could be implemented in a short period of time.

Phyllis Biedess We're saying come back to Government Information Technology Agency and ITAC again? My question procedurally would be if we think the project is warranted and critical, solutions chosen are the correct ones. Why not have that handled by GITA if there is an agreement between the two that goes forward, why back to us again?

Frank Somers If we change this to approval with conditions and change wording?

Art Ranney I agree.

Karl Heckart Does this project have no relationship with BRITS at this point?

Mark Killian That's correct. Originally when we were looking at this, we were hoping we would have a bridge but because of critical nature, we abandoned that approach, said let's get that thing in here to get us through the next 3-4 years and let the vendor and BRITS come back to us with a long-term solution.

Al Crawford Band aid approach, you did not look at Computer Associates or IBM, what alternative were you preferring?

Mark Killian We originally thought Oracle or something like that might be a solution but again in visiting with Art and staff, we looked at what needed to be done based on what the staff was telling us. When we found we wouldn't have to go through the RFP process, we said why not.

Art Ranney The question also came up, do we need more analysis, do we need a rewrite? We weren't sure we needed to go there yet, we need to get this fixed.

Al Crawford I'm assuming that was not a major development?

Art Ranney That was kind of what we wanted. What can we do now to make this work at the most reasonable cost?

Karl Heckart If you're going to build this system, when are you anticipating beginning construction of the system overlapped against the BRITS project and when this consultant would be on board to start laying out the architecture of the new BRITS system? Are these radically different or are they likely in some close correlation?

Mark Killian Just looking at the timeframes, we feel we can have the vendor on board about one year from now on the BRITS project. Then you're looking how long it takes them to begin the construction process, I'm assuming another 12 months, 18 months, maybe 24 months. To a large degree, hopefully, with what we're recommend here, we're going to extend the lack of a TPT system long enough so when the vendor comes back with whatever new system, we can implement or can pour one system into the other.

Karl Heckart My lead there was not wait until the BRITS guy is on board to build your new system, it was a technology convergence issue. Before you

pick this technology, if your BRITS vendor was selected, I would say here's the technology set we're building in and that should be a major consideration in the technology set you build this temporary system.

Dave Rowand   We're not building a new system, we're reorganizing its data so we can continue the process taxpayer information and do our distribution to the counties, state, cities, special districts and is legislation in a couple other cities passes, that will add even more. Our system is maxed out and we do need to reorganize and expand this data.

Art Ranney Most of this has been defined so we're talking about not exactly a complicated conversion at this point.

Motion by Dr. Lewis;
Second by Al Crawford;
Motion approved.

Dr. Blessing abstained, out of room on conference call.

Department of Revenue
  ● **Property Tax System Project**   **Exhibit 7**

Frank Somers, Government Information Technology Agency Oversight Manager
DOR Presenters: Mark Killian, Steve Partridge, DOR Staff

Al Crawford What's your authority over the counties in this uniformity, can you dictate that or do you have to influence them?
Steve Partridge   We have statutory authority for tax equalization that we monitor both the property the values and also level of disbursement. Every year, is someone gets too out of line, we have the ability to hit them with an equalization order and fire up the Attorney General's office to bring them into line. We try to get along with everybody and generally they have been working with us; we try to cut them some slack. They were really in bad shape a couple years ago and I met with them. I don't want to have to sue them and I work with them. Santa Cruz and Cochise Counties had problems and there are good reasons in certain areas why they couldn't bring it up.
Al Crawford Why not Maricopa and Phoenix?
Steve Partridge   Kevin McCarthy at ATRA has been a real advocate. At some point we want Maricopa and Pima on your system for uniformity because that way we could provide timely reports to business community and school districts, which right now we are sort of at the mercy of Maricopa and Pima. Maricopa is ahead of us technologically, so we have trouble getting data in that we can convert and actually use. We were to have data in before January 15, still have not got complete data from Maricopa County. This would help us do that.
Peter Woog We hear it's negotiating skills. To me this is the time to step up to

that issue. If we're reengineering government and trying to find ways to save the taxpayer money overall, I would encourage in the strongest sense to sit down with Maricopa and Pima, can we move this forward on a common base. Either you support us in this activity or we do one common platform as we raise this to the next level and not as a Maricopa resident next hear we're funding a project over at the county level to do the exact same thing.

Phyllis Biedess   I know this is part of the first project. How do you see both of these going forward?

Steve Partridge   Generally property tax doesn't have anything to do with the mainstream of DOR. We're our own separate group there and hooked into the mainframe, don't know what goes on with the rest of the system.

Mark Killian We're hopeful that in the first project eventually a lot of the data property tax uses will be fed into our system. To a large degree property tax data will be a part of that shared data base. In paying for the property tax system, I think that will be more difficult. Whatever you all recommend we do, we'll go down that road, we go out for proposal and it won't work in gain sharing, we'll come back and may go another route. Our systems are old, our major customers are the counties and they ask why they can't get the state to turn around quicker. Steve raised a good issue on uniformity and the impact it has on the counties.

Karl Heckart   The courts face the same problem in trying to support all the counties. We solved the Maricopa and Pima counties with a court order.

Danny Murphy   These are some of the best proposals I have seen, you did a great job in preparing for this. Two previous projects, one huge and one with moderate risk – how much change can the agency absorb with a third project? Are you overloading yourself if this is approved?

Mark Killian That's one of the things the Gartner Group did evaluate. They did a survey and talked to employees, both management level and staff level. Our people are ready for change. We've taken some of our very best people to work on these projects. For future projects, if we need people from the present projects, we will take and move to work on these projects. We do have limitations with the high vacancy rate in our agency, the pay situation and the cities and private sector are stealing our people.

Karl Heckart   How will you see the technological integration between this and the master BRITS project, are you going to wait for the vendor's award and use the software of this vendor or its architecture or continue moving forward in a parallel pattern with that project?

Mark Killian We will move on a parallel pattern. Part of the problem is legacy systems are so old, they need to be changed now, can't wait 3-5 years down the road. That placed an additional burden on us. We have to get this in now, and are hopeful a vendor will come in and integrate all this. That means the mission-critical issues go on every day, have to continue to go on. Eventually, hopefully, this will all blend together.

Steve Partridge   To both questions and in the property tax area, we're desperate for the change. I'm afraid every year that something will happen to affect school finance or something. In talking with my counterpart in Kansas,

their property tax got a great computer with bells and whistles. It was based on school finance and taxpayer lawsuit and there is an injunction from a court saying no payments to schools until you fix it. That certainly motivated it.

Phyllis Biedess Do you have other systems in addition to the two before us today? Are there more coming or does it mean that all the data systems will be up for some sort of change between now and –give us a little more background.

Mark Killian We're hopeful the two most critical systems are the ones presented to you today – income tax, corporate income tax, withholding, they're ok. Through the BRITS programs, they will be blended in and we'll hopefully be alright. These two are our biggest concerns. One of the obstacles is our systems don't talk, they're in separate data bases.

Al Crawford Where are we in funding, do you have the budget for this year or next?

Tom Betlach If you can bring the TPT system in at considerably below what we have already reserved in the budget, that certainly may free up some resources.

Mark Killian We have our hearings next week and have some negotiating to do.

Art Ranney On page 27, one of the things you have to deal with is most counties have their own mind and several questions: have deliverables been clearly identified and appropriately scheduled? No. Have critical success factors been identified and agreed to by users and the project team? No. I realize this is very early in the game, but we really like to see those before we get this project done, before you get rolling. We need to get their buy-in because we don't need another county going off.

Peter Woog As you go forward with all of your systems here, I'm sensing you're putting a master plan together of how all the DOR systems will interface with each other and you will ultimately not have silo systems or you'll have a different way of doing it. Is that right?

Mark Killian We would like to come back and give you the same proposed architecture presentation we gave to the employees and stakeholders. That architecture has been laid over our business organization. As we speak, the executives of the agency are working every Tuesday and Thursday on the reorganization itself. The vision of the first project is we will tell the vendor where we want to end up, we want all these systems linked and talking.

Phyllis Biedess The letter from Government Information Technology Agency indicates the transaction privilege file is obviously in immediate need; this one seems to be from their perspective a longer term. Please comment on that.

DOR Staff Not knowing about the TPT system is something that is a band aid; this is a whole new area for us.

Phyllis Biedess What would happen if you couldn't go forward until 2003?

DOR Staff Wow! We're already getting complaints, would definitely see the counties going out on their own. Continued failures on their side cost of bringing it back, the whole system would be shaky. The oversight capabilities would be gone, everybody would suffer.

Steve Partridge With the client counties, we run the risks and do the processing of all the tax bills as well, could end up affecting every single county.

If we get them out late, the Treasurers don't collect money, there are scary impacts. We don't know how dereg will impact what we have to do. We met with the major electric utilities and they were concerned about our system with our centrally-located unit and we had some preliminary discussions about them getting us some equipment. I'll try anything to get us updated.
Art Ranney Are there any counties here who would like to present?

Motion by Dr. Blessing to approve;
Second by Dr. Lewis;
Motion approved.
Tom Betlach   I would vote aye with a qualifier that my recommendation of aye doesn't necessarily change the perspective from the overall state priority in fitting in with the 7 or 8 priorities and all the other issues we have going on.

Department of Health Services
  ● **Microsoft Office Migration**   **Exhibit 8**

Frank Somers: Government Information Technology Agency Oversight Manager
DES Presenters: Eric Hedlund, Danny Valenzuela

Dr. Blessing Is this one that had to come before ITAC because of the dollar amount?
Art Ranney I have heard this before and you're absolutely right. This is a foregone conclusion that we need refresher system and move them forward. The problem is the way the legislation was written. This last year, we changed the IT planning piece where if the agencies submit their plans and if they put their refresh into that plan and we blessed the plan, we're saying it's now been approved and you will never see this again. This is our first year for this and this will probably be the last one we'll deal with from this standpoint.
Peter Woog The 257 shown as licensing and maintenance fees FY 04 – is that an expense that will repeat every other year?
Eric Hedlund   Based on the pattern we've seen in trying to refresh our licensing, it will occur on every other year.

Motion by Phyllis Biedess to approve;
Second by Dr. Blessing;
Approved.

PIJ Status Report   **Exhibit 9**

Art Ranney This is a report of all the PIJs that have been going on, what projects we're anticipating, what we need to do. If you'll go to summary of project (fourth box on right hand side) it gives you a summary of ITAC projects: 41 with

development costs of $331M; Government Information Technology Agency projects $108M. Below are the projects completed. ITAC has done a great job! These projects have been completed, mostly on time and mostly within budget.
Dr. Blessing Agencies have done a great job!
Art Ranney They have done a great job and ITAC helped them get there.

Monthly Project Monitoring Report   **Exhibit 10**

Art Ranney This is what we do from a monitoring standpoint. This is the front end of the process where you're doing the justification and approving the project. This will tell you where the projects are we're currently working on and currently monitoring. Every month it's probably not important to see every one of these. This is a new report and I would like to get feedback whether there is something we can do cleaner, easier for you to keep up with this. We definitely want to do that. This is online, as is E-Bits.

Other Business
  ● **Future Agenda Items**

Motion by Dr, Blessing to adjourn;
Second by John Jacobs;
Meeting adjourned.